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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

INNOVATION DATA PROCESSING,
INC.,

PLAINTIFF,

v.

AMDAHL CORP.,

DEFENDANT.

CIVIL ACTION NO. 01cv-00595 (JCL)

MEMORANDUM AND ORDER

FILED

SEP 25 2001

SEP 27 2001

AT 8:30
WILLIAM T. WALSH
CLERK

LIFLAND, District Judge

Innovation Data Processing, Inc. ("Innovation") moves to restore its complaint to the Court's active calendar. Amdahl Corp. ("Amdahl") moves to dismiss that complaint for lack of subject matter jurisdiction.

BACKGROUND

This case involves the validity of a patent for computer data migration software. Amdahl and Innovation develop and distribute competing computer software products. Amdahl is the assignee of United States Letters Patent No. 6,145,066 (the "'066 patent"), issued November 7, 2000. Compl., ¶ 6. This controversy began on January 24, 2001, when Amdahl notified Innovation that an Innovation product appeared to infringe claims of the '066 patent. Compl. Ex. B (Amdahl Letter of Notice). Innovation then filed this complaint on February 6, 2001, seeking a declaratory judgment that the '066 patent was invalid, and that Innovation was not infringing any claim of the '066 patent. Compl., ¶ 19. On April 18, 2001, the Court having been advised of settlement, dismissed the action, with a sixty-day right to reopen for good cause in the event settlement could not be consummated. This right to reopen was extended for an additional thirty days, until July 17, 2001. The parties have

been unable to consummate the settlement, and on July 17, 2001, Innovation filed the instant motion to restore this case to the Court's calendar.

During the settlement talks, on April 10, 2001, Amdahl filed an application with the United States Patent and Trademark Office to reissue the '066 patent. The application contained amendments to the original seven claims, and forty-nine new claims. Defs. Mem. in Supp. of Mot. to Dismiss, at 2. Following this filing, it is undisputed that Amdahl informed Innovation that it would not sue Innovation for any potential infringement of the existing claims of the '066 patent. Specifically, Amdahl stated that "Innovation . . . has no liability to Amdahl (or any of its successors-in-interest) for infringement of the present claims 1-7 of the '066 patent based on [Innovation's] manufacture, use, sale, or offer to sell any product or service," and that "Amdahl (or any of its successors-in-interest) will not sue [Innovation] for infringement of the present claims 1-7 of the '066 patent based on [Innovation's] manufacture, use, sale or offer to sell any product or service."

Based on its promise not to sue, Amdahl now moves to dismiss Innovation's complaint for lack of subject matter jurisdiction. Amdahl argues that without the risk of liability for infringement of the present claims of the '066 patent, no case or controversy remains for adjudication. Innovation, however, responds that Amdahl's offer is insufficient to resolve the current matter, contenting that the invalidity of the '066 patent remains in contention. In particular, Innovation argues, Amdahl has not waived its right to raise new infringement charges against Innovation for any claims that may be contained in a reissue of the '066 patent. Innovation claims the validity of the '066 patent, and the rights that may arise from its reissue, are live issues that present a threat of continuing harm, and provide jurisdiction to decide the merits of the case.

STANDARD OF REVIEW

A federal court must dismiss an action whenever it appears that the court lacks jurisdiction over the subject matter of the complaint. Fed. R. Civ. P. 12(h)(3). A party may challenge the court's jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(1), either by attacking the allegations on the face of the complaint, or the facts supporting the allegations. Carpet Group Int'l v. Oriental Rug Imp. Ass'n, 227 F.3d 62, 69 (3d Cir. 2000); Mortensen v. First Fed. Savings & Loan Ass'n, 549 F.2d 884, 891 (3d Cir. 1977). Where a party challenges the court's subject matter jurisdiction on the pleadings, the court "must assume that the allegations contained in the complaint are true." Cardio-Med. Assocs. Ltd. v. Crozer-Chester Med. Ctr., 721 F.2d 68, 75 (3d Cir. 1983). The court's evaluation is thus similar to the analysis used in evaluating a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6). Mortensen, 549 F.2d at 891; Cohen v. Kurtzman, 45 F. Supp. 2d 423, 428 (D.N.J. 1999).

ANALYSIS

The Declaratory Judgment Act allows federal courts to "declare the rights and other legal relations of any interested party." 28 U.S.C. § 2201; Skelly Oil Co. v. Phillips Petroleum Co., 339 U.S. 667, 671 (1950). The Declaratory Judgment Act is procedural, and does not create an independent basis for federal jurisdiction. Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 240 (1937). Rather, the "existence of an actual controversy is an absolute predicate for declaratory judgment jurisdiction." Spectronics Corp. v. H.B. Fuller Co., Inc., 940 F.2d 631, 633-34 (Fed. Cir. 1991). The party seeking a declaratory judgment carries the burden of establishing an actual case or controversy within the meaning of Article III. Cardinal Chem. Co. v. Morton Int'l, Inc., 508 U.S. 83, 96 (1993); GAF Building Materials Corp. v. Elk Corp., 90 F.3d 479, 481 (Fed. Cir. 1996) (noting the "actual

controversy' requirement is met only if there is a justiciable case or controversy in the constitutional sense"). The parties' controversy must exist at all stages of the action, and not merely at the filing of the complaint. Spectronics, 940 F.2d at 635 (quoting Int'l Med. Prosthetics Research Assocs. v. Gore Enter. Holdings, Inc., 787 F.2d 572, 575 (Fed. Cir. 1986)).

In the present case, Innovation seeks a declaratory judgment that it does not infringe any valid claim of the '066 patent. Compl., ¶ 19. Innovation argues that Amdahl's demand that Innovation cease shipping or selling any products that infringe the '066 patent created a reasonable fear of suit, and thus an actual controversy between the parties. The Federal Circuit has outlined a two-part test for determining whether an actual controversy exists in an action for declaratory judgment involving claims of non-infringement or invalidity. First, "the accused infringer must have actually produced or prepared to produce an allegedly infringing product." Spectronics, 940 F.2d at 634 (citing Jervis B. Webb Co. v. S. Sys., Inc., 742 F.2d 1388, 1398-99 (Fed. Cir. 1984)). Second, the patent holder's actions "must create an objectively reasonable apprehension on the part of the accused infringer that the patent holder will initiate suit if the allegedly infringing activity continues." Id. (citing Arrowhead Indus. Water, Inc. v. Ecolochem, Inc., 846 F.2d 731, 736 (Fed. Cir. 1988)).

The Federal Circuit has emphasized that although the two-part test is fact sensitive, a patent holder faced with a declaratory judgment action can terminate jurisdiction by covenanting "not to assert the patent at issue against the putative infringer" regarding any "past, present or future acts." Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1058 (Fed. Cir. 1995). Such a covenant is sufficient to destroy federal jurisdiction in a declaratory judgment action, even when a reissue application "covering the same claimed subject matter" of the patent at issue is pending. Id.; Spectronics, 940 F.2d at 636-38. These holdings control the present controversy, and dictate that

this Court is without jurisdiction to grant the declaratory relief sought by Innovation.

Innovation's complaint satisfies the first prong of the jurisdictional test. Amdahl has notified Innovation that it may be infringing certain claims of the '066 patent. Compl., ¶ 6. Innovation has thus demonstrated a current activity and use that may be subject to an infringement action by Amdahl. Arrowhead, 846 F.2d at 736; BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993).

Amdahl's covenant not to prosecute any such claim, however, leaves Innovation unable to satisfy the second prong of the jurisdictional test. Amdahl, through its Vice President and General Counsel, has filed a certification with this Court waiving any possible right to bring suit against Innovation concerning claims 1-7 of the '066 patent. Dec. of G. Gregory Handschuh, Esq., ¶ 1-4. Amdahl is thus forever estopped by this statement of non-liability, and may not assert any action against Innovation for infringement of claims 1-7 of the '066 patent. Super Sack, 57 F.3d at 1059. As held by the Federal Circuit, "[t]his estoppel, in turn, removes from the field any controversy sufficiently actual to confer jurisdiction over this case." Id.

Innovation's efforts to distinguish this case from Spectronics and Super Sack are unsuccessful. Innovation first argues that notwithstanding Amdahl's covenant, the issue of the validity of the '066 patent remains in controversy. Innovation notes that Amdahl is currently seeking reissue of the '066 patent, a petition which must be based on the disclosures made in the application for the '066 patent. Innovation thus argues that the validity of the '066 patent, and any forthcoming reissue of those claims, should be resolved at this time because Innovation remains threatened by Amdahl's possible future allegations of infringement. The very basis of Innovation's argument, however, reveals the absence of a present claim or controversy. Even assuming that Innovation is

correct in arguing that the present claims of the '066 patent are invalid, this Court has no jurisdiction over the subject matter because Innovation is forever freed from liability for infringement of those claims. Without the prospect of liability, Innovation "can have no reasonable apprehension that it will face an infringement suit" on the '066 patent for any potentially infringing products. Super Sack, 57 F.3d at 1059. It is axiomatic that before the patent is reissued, this Court has no claims by which to measure Innovation's allegations, or Amdahl's conduct. Spectronics, 940 F.2d at 636. Indeed, there is no guarantee that any reissue of the '066 patent will ever occur. Id. If Innovation seeks to challenge the validity of any of the reissued claims, it must await action by the Patent and Trademark Office, and a new claim of infringement by Amdahl. Id. (noting that before a patent is issued, the scope of claims protected is "totally unforeseeable," and holding that "presently enforceable" claims against the alleged infringer are a requisite to declaratory relief) (quoting State Indus., Inc. v. A.O. Smith Corp., 751 F.2d 1226, 1236 (Fed. Cir. 1985)).

Innovation next argues that the mere covenant not to sue on the present claims of the '066 patent is insufficient to moot its controversy with Amdahl. Innovation contends, correctly, that the claims currently contained in the '066 patent may reemerge should Amdahl successfully prosecute its reissue application before the Patent and Trademark Office. Innovation further reads the decision in Spectronics to require Amdahl to acknowledge Innovation's "intervening rights" to the claims in the pending reissue patent. Innovation's interpretation of Spectronics is too broad.

In Spectronics, as in this case, the alleged infringer argued that despite the patent holder's covenant, it might be liable for infringement "if any of the reissue claims are 'identical' to the original." Id. at 637. This concern was based on 35 U.S.C. § 252, which provides that "every reissued patent shall have the same effect . . . for causes thereafter arising, as if the same had been

originally granted in such amended form." Innovation argues that Amdahl has withdrawn its existing claims in the '066 patent, and is proceeding only with new claims in the reissue proceedings. Pls. Br. in Opp. to Mot. to Dismiss, at 9. Amdahl, states Innovation, is thus attempting to preserve its right to bring an infringement action for any newly issued claims by abandoning the threatened infringement charges under the existing '066 patent. Even accepting these conclusions as true, Innovation's declaratory action falls squarely within the holding in Spectronics.

Amdahl has provided Innovation the very guarantee found acceptable in Spectronics. Innovation, like the plaintiff in Spectronics, is thus forever free from the threat of infringement of present claims under the '066 patent. Should any claims reissue, of course, Innovation may still be forced to defend against "future infringement of substantively non-identical claims." Spectronics, 940 F.2d at 637-38. But since any reissue, and the claims it may contain, is entirely speculative, this Court lacks jurisdiction to decide Innovation's potential intervening rights at this time.

The Federal Circuit's decision in Amana Refrigeration, Inc. v. Quadlux, Inc., 172 F.3d 852 (1999) reaffirms the requirements of Spectronics. In Amana, the patent holder mailed warning letters accusing the plaintiff of infringement. Id. at 854-55. The plaintiff responded with a declaratory action, seeking a judgment of non-infringement and invalidity. Id. at 855. The court found that the patent holder's covenant not to assert any claim under its patent "as it presently reads" was sufficient to terminate the controversy, and thus federal jurisdiction. Id. at 855-56. The court specifically noted that the limited covenant addressing only the patent "as it presently reads," and the plaintiff's concerns regarding liability under a reissue of the same patent, did not sustain the case or controversy. Id. at 856 (holding this argument was "rejected" in Spectronics) (citing Spectronics, 940 F.2d at 631). In this case, as in Amana, and "as in Spectronics, the future existence of a reissue

patent is wholly speculative, and, therefore, cannot create a present controversy." Id.

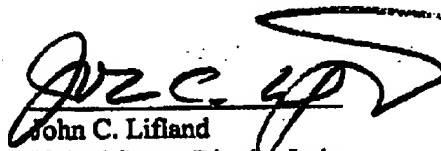
Whatever intervening rights Innovation may be granted must await Amdahl's receipt of a reissued patent, and its assertion of those substantively different claims against Innovation. For the present, Amdahl's covenant to forever waive its right to allege that Innovation has infringed the present claims of the '066 patent resolves this case, and ends this Court's jurisdiction over the subject matter of this declaratory action.

Accordingly IT IS on this 25th day of September 2001,

ORDERED that Plaintiff Innovation Data Processing, Inc.'s motion to restore this action to active calendar is denied; and it is further

ORDERED that Defendant Amdahl Corporation's motion to dismiss Innovation Data Processing, Inc.'s complaint for lack of subject matter jurisdiction is granted; and it is further

ORDERED that the complaint is dismissed.


John C. Liffand
United States District Judge